

GUNNAR MINING

L I M I T E D

32nd

A N N U A L R E P O R T



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**GUNNAR MINING
L I M I T E D**

**BOARD
OF
DIRECTORS
AND
EXECUTIVE
OFFICERS**

ANNUAL MEETING

May 27, 1966, 11:00 A.M. (Toronto Time)
Territories Room, Royal York Hotel,
Toronto, Ont.

BOARD OF DIRECTORS

JOHN N. BOTSFORD, Toronto, Ont.

PAUL McNAMARA, Toronto, Ont.

JOSEPH S. LABINE, Toronto, Ont.

WILLIAM McNAMARA, Toronto, Ont.

HAROLD McNAMARA, Toronto, Ont.

T. P. O'CONNOR, Toronto, Ont.

JULES R. TIMMINS, Montreal, Que.

David S. Beatty

EXECUTIVE OFFICERS

GUNNAR MINING LIMITED

T. P. O'CONNOR, *President*

J. N. BOTSFORD, *Vice-President and General Manager*

J. S. McFADDEN, *Secretary*

A. H. CROSS, *Treasurer and Assistant Secretary*

McNAMARA CORPORATION LIMITED

HAROLD McNAMARA, *Chairman of the Board*

A. D. McKEE, *President and Chief Executive Officer*

G. B. MORRIS, *Vice-President — Construction*

F. B. CAMPBELL, *Vice-President — Administration and Finance*

G. E. HOWEY, *Treasurer*

R. MacTAVISH, *Comptroller*

GUNNAR MINING
L I M I T E D



SOLICITORS

CARRICK, O'CONNOR, COUTTS & CRANE - - Toronto, Ont.

AUDITORS

TOUCHE, ROSS, BAILEY & SMART - - - Toronto, Ont.

TRANSFER AGENT & REGISTRAR

CROWN TRUST COMPANY - - - - - Toronto, Ont.

TRANSFER AGENT

EMPIRE TRUST COMPANY - - - - - New York, N.Y.

HEAD OFFICE

797 Don Mills Rd., Don Mills, Ontario

DIRECTORS' REPORT

April 25, 1966.

To the Shareholders
GUNNAR MINING LIMITED

The Board of Directors submits herewith the Annual Report of your Company and its subsidiaries, together with the Consolidated Balance Sheet and related Financial Statements for the year ended 31st December, 1965, and the Report of your Auditors.

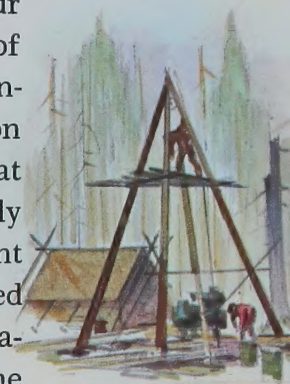
Financial and Construction

The year 1965 proved a crucial one for your Company culminating in a consolidated net loss of \$13,293,000. This loss is attributable entirely to the operations of the construction subsidiaries.

Although our misfortunes have received wide press coverage and the shareholders have been kept notified through interim reports from your directors, it is felt a review of the causes of the losses over the past two years, the steps taken to prevent the collapse of the Company, the present position and the outlook for the future is required.

In the early Summer of 1965, when it appeared that previously unforeseen losses would be incurred on some major long term construction projects, your directors, after discussions with the several bankers of the Company, retained independent management consultants to make a thorough study of the construction operation of McNamara Corporation Limited. At that time the bank borrowings stood at approximately \$45,500,000. The preliminary report of the management consultants received in early August, 1965, attributed the major cause of the difficulties of McNamara Corporation Limited to "the tremendous expansion of the Company's activities just over two years ago, without the benefit of a formal plan to cope with such a major change in the nature of its business."

In January, 1963, at the time of the acquisition of McNamara Corporation Limited, it had on hand un-completed work to the value of \$50,000,000. In the Fall of 1963 this increased to \$125,000,000 and by the Summer of 1964 had reached a figure of \$145,000,000.



It is now evident that the expansion was too great and too fast. It had not been accompanied by a well planned program for the acquisition of key personnel and control mechanisms. The estimation of the costs of some of the larger jobs has since proved inaccurate.

A further report of the management consultants to the directors and the bankers later in August showed the position to be critical. There then followed weeks of meetings of the directors, bankers, bonding company and the management consultants which resulted in the execution of the "Bank Consortium Agreement" between the Company and its several bankers and the bonding company. This agreement, in effect, provided for the reduction of bank borrowings by the liquidation of Gunnar's investment portfolio, the sale of surplus assets of Gunnar and the construction subsidiaries, the reduction of volume of new construction work, changes in construction personnel and, with certain limitations, continued financial assistance by the banks and the bonding company. The implementation of this agreement has resulted in a reduction of the bank borrowings to \$26,900,000 from \$45,500,000 at 31st July, 1965.

Dividends totalling 40¢ per share were paid in 1965, such payments being 20¢ each on 1st April and 1st October. The October payment was made despite the precarious position of the Company as it had been declared in February and was therefore a legal obligation

of the Company to the shareholders. No dividends will be paid in 1966.

The estimated costs to complete each construction job are prepared monthly and where these estimated costs exceed the revenue the loss to complete is recorded and revised as necessary. We have found it necessary to increase our provision for losses to complete certain major contracts since the interim report published in July, 1965, and again since the interim report published in February, 1966. The loss figure of \$13,293,000 therefore includes the revised estimate of losses to complete all jobs, upon which losses are contemplated, to the date hereof.

Despite our losses during the past two years our current assets were equivalent to our current liabilities at year end, and total asset value exceeded total liabilities by almost \$10,000,000. Claims for additional compensation resulting from changed conditions and extra work are not reflected in the financial statements until the payment has been received. This policy has been followed in prior years. It is not normal to comment on the amounts involved in such claims because these amounts have not been agreed to by contract owners and often represent major differences of opinion. However, because some elements of the severe loss in 1965 are the subject of claims against the contract owners it is

felt that shareholders should be advised that recoveries during the current year resulting from these claims could be substantial.

Exploration

The policy has been maintained of providing for a mining exploration budget to permit the Company to continue a diligent search for new mineral resources and to participate in present joint mining ventures. Such exploration activities were conducted by Gunnex Limited in 1965 and involved all phases of field work in areas across Canada and in the southwest United States of America. Exploration on a syndicate basis continued with three separate groups in programs in the Northwest Territories, Quebec and Europe.

BRITISH COLUMBIA

The 1965 exploration program on the block of mineral rights optioned from Canadian Pacific Oil and Gas Limited on Vancouver Island was a continuation of the previous year's work and included diamond drilling. At year end the optioned area had been reduced from the original 545,000 acres to about 80,000 acres in the western portion of the block. It is anticipated the exploration of this reduced area will be completed in 1966. The 1964 diamond drill program on the Skarn showing was completed early in 1965. One hole intersected

significant copper values over a respectable width, but the remaining holes were uneconomic. A new occurrence of copper mineralization was located just prior to the close of the 1964 season in the western part of the optioned area in the vicinity of Mount Spencer. Heavy snow conditions prevented further exploration until early in July, 1965, and when field work ceased in November, we had outlined an interesting copper-bearing zone. This showing warrants additional work, including drilling, in 1966.

Under the terms of an option agreement dated 30th April, 1965, between Gunnex Limited and Noradco Mines Limited, funds were provided for a preliminary underground investigation of two high grade silver veins on 12 claims under option to Noradco and situated 28 miles northeast of Stewart, British Columbia. An additional 68 claims were staked by Noradco. As a result of these preliminary investigations, Gunnex by year end had purchased sufficient treasury shares to provide \$485,000 to the Noradco treasury. These funds were used for property purchase, further underground development, camp and road construction, skipway construction and metallurgical investigation.

Two adits were driven into the side of Goat Ridge Mountain at elevations of 4,856 and 4,742 feet. The upper adit was advanced 87 feet in ore in the main footwall vein and two 36-foot raises were driven from this level to intersect the parallel hanging wall vein.



Results of channel and bulk samples from this work were somewhat higher than those obtained from surface sampling.

Prior to commencement of skipway construction to the lower adit, this heading was advanced a sufficient distance to permit storage of haulage equipment preparatory to early resumption of exploration and development work in 1966. Mine development and construction of the road connecting with the Stewart-Cassiar Highway proceeded simultaneously. By the end of August this 7½ miles of road was suitable for four-wheel drive vehicles. Grading and installation of culverts in 1966 will provide an excellent access to the mine property. A permanent camp site was cleared just below the mine workings and four permanent camp buildings were installed.

Metallurgical investigations indicate the ore sampled to date is amenable to normal concentration methods. The tonnage of ore developed in 1966 will govern a decision as to whether this ore will be treated in a concentrating plant erected by Noradco or in a mill currently operating in the district.

NORTHWEST TERRITORIES

All Earl - Jack Syndicate efforts for 1965 were concentrated on the two groups of claims staked during 1964 to cover a gold-bearing stockwork of quartz veins

approximately 1,000 feet long. During February and March, 16 diamond drill holes were completed for a total length of 3,265 feet. Visible gold was secured in the core from these diamond drill holes over a vein length of about 400 feet and a single intersection at a vertical depth of 450 feet also contained visible gold in the quartz stockwork. However, we were not able to extend the small ore-grade shoot outlined by surface sampling in the Fall of 1964. During the Summer of 1965 additional mapping, trenching and sampling plus geophysical surveying was completed over the balance of the two claim groups. Although eight new gold-bearing quartz zones were located and tested, gold values are too erratic to warrant further work at this time. Sufficient assessment work has been applied to retain the claims in good standing.

SASKATCHEWAN

Gunnar assisted in providing finances for the drilling of a shaft pilot core hole on the property of Choiceland Iron Mines Limited in north-central Saskatchewan. This property contains a magnetic deposit with a potential, indicated by earlier drilling, of 150,000,000 tons for a vertical depth of 1,000 feet. The average grade is indicated to be 28.8% Fe (iron). The top of the deposit is located approximately 2,000 feet below surface.

The Saskatchewan Government has expressed interest in providing assistance to Choiceland Iron Mines

Limited for the sinking of a 16-foot diameter exploration shaft to provide access to the deposit for further sampling, evaluation, final metallurgical testing and possible production. The pilot hole was completed in September, the hole data and engineering reports were submitted to several shaft sinking contractors, and bids were received by Choiceland on 19th January, 1966. The Provincial Government has been provided with all available engineering data and is presently completing a final feasibility study of this project.

MANITOBA-ONTARIO

Detailed exploration was carried out on five groups comprising 240 claims held under option and on ten groups containing 333 claims held by staking in northern Manitoba and northern Ontario. Two programs not completed in 1965 are being fulfilled early in 1966.

QUEBEC

Field activity by the Icon Syndicate, in which Gunnex continues to maintain an equal interest with Rayrock Mines Limited, Kerr Addison Mines Limited and Newmont Mining Corporation of Canada Limited was centred in the Chibougamau area of Quebec in 1965. The main projects continued as follow-up exploration of electromagnetic anomalies located by three separate aerial surveys. In addition, prospecting was carried out on a limited basis in areas serviced by roads in the district.

As a direct result of this follow-up exploration, the Sullivan claim group was staked at the south end of Lake Mistassini to protect an interesting occurrence of copper. The results of 20 shallow diamond drill holes completed to date indicate the presence of good copper values occurring as chalcopyrite in a flat to gently dipping bed of quartz dolomite. These values occur over a thickness of 12 to 15 feet at depths of from 40 to 140 feet below surface. A great deal more exploration work is required before the ultimate value of this interesting discovery can be accurately determined.

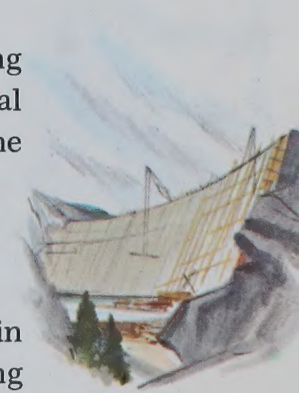
Exploration results indicate that diamond drilling is warranted on one or two other properties in the general area, and such work is planned to commence in the immediate future.

UNITED STATES

A number of mining properties and prospects in the southwestern United States were examined during the year, and some interesting situations were discovered which warrant further investigation in 1966.

EUROPE

The Mining Explorations (International) Syndicate was extremely active during the year and acquired a considerable number of properties or concessions from individuals and/or governments in England, France,



Spain and Portugal. Offices with permanent staffs were established in these countries.

Geological field studies and geochemical and geophysical surveys have been carried out on five project areas. The results merit diamond drilling which will be carried out this coming year. Evaluation of additional properties is still underway throughout Europe.

Directors

Mr. Jules R. Timmins who, for many years, served the Company as a director advised that, due to his advancing years, he was relinquishing many of his directorships and would not stand for re-election at the annual meeting. We wish to publicly acknowledge and thank him for his great contribution to the Company.

Mr. David S. Beatty, Deputy Chairman of Burns Bros. & Denton Limited, Investment Dealers of Toronto, has consented to be nominated as a director, and it is the intention of the persons named in the accompanying proxy to vote for his election and the re-election of the other present directors.

Incentive Stock Option Plan

Pursuant to the Incentive Stock Option Plan created by By-law No. 5A, which was ratified by the shareholders at the annual and special meeting on 21st May, 1965,

the following options to purchase the following shares of the Company were granted to the following senior executive employees of McNamara Corporation Limited on the following dates:

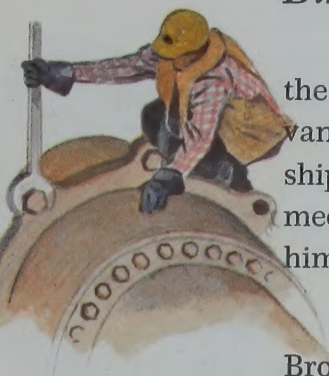
October 19, 1965	A. Douglas McKee	100,000 at \$2.15
March 3, 1966	F. B. Campbell	15,000 at \$2.02
March 28, 1966	G. B. Morris	50,000 at \$1.96

These options are exercisable in equal instalments of 20% of the total over a five year period commencing one year from the grant dates. The right to exercise such options to the extent of 20% thereof is cumulative from year to year, but each option will expire and terminate six years from its grant date.

The Company is committed to grant to the employees holding the first two above mentioned options additional options covering shares totalling the same amounts in four equal annual instalments commencing on the anniversary date of the respective grant dates at prices equal to the closing bid price of the shares of the Company on the Toronto Stock Exchange on the date such additional options are granted.

Employees

The past two years of financial losses have been difficult ones for employees as well as shareholders. Many loyal and competent employees have worked well beyond



the normal call of duty in an effort to improve the position of the Company and we wish to take this opportunity to thank them.

Outlook

Since last July, in following the policy of selective bidding, the construction subsidiaries have been awarded contracts totalling \$26,000,000. The program of re-organizing personnel has been stepped up and, coupled with improved cost control, intensive supervision of jobs now in a loss position, the continued sale of surplus

equipment and the receipt of moneys from claims, should result in a further improvement in the Company's bank position during the present year.

Our mineral exploration activities will continue unabated.

On Behalf of the Board,

T. P. O'CONNOR,
President.

Toronto, Ontario



GUNNAR MINING LIMITED AND SUBSIDIARIES

ASSETS

CURRENT

Cash	\$ 477,893	\$ 268,390
Marketable securities, at cost (quoted market value \$2,280,440)	2,246,449	9,726,287
Accounts and notes receivable, including \$10,045,901 retained by customers in accordance with contract provisions	31,047,545	31,102,705
Income taxes recoverable	1,839,233	1,788,078
Inventories for resale at the lower of cost and market	7,157,912	5,504,236
Investment in joint ventures	5,366,471	6,358,241
Contracts in progress, at the lower of cost and realizable value, less progress billings	1,660,753	3,267,064
Real estate held for resale at estimated realizable value	630,600	—

50,426,856

58,015,001

INVESTMENT IN SECURITIES OF CAMERINA PETROLEUM CORPORATION,
at cost

—

3,000,000

SUNDRY INVESTMENTS, at cost less amortization

1,519,487

929,333

PROPERTY, PLANT AND EQUIPMENT, at cost \$36,658,923
Less accumulated depreciation 26,956,862

9,702,061

15,026,470

On behalf of the Board

T. P. O'CONNOR, Director.

J. N. BOTSFORD, Director.

\$61,648,404

\$76,970,804



Consolidated Balance Sheet AS AT DECEMBER 31, 1965

LIABILITIES

CURRENT

Bank indebtedness, secured	\$26,902,155	\$35,238,353
Accounts, notes payable and accrued charges	15,817,152	12,457,299
Income and other taxes payable	1,020,323	932,408
Provision for estimated future losses on construction contracts including \$3,400,000 applicable to investment in joint ventures	6,650,000	502,800
	<u>50,389,630</u>	<u>49,130,860</u>
Mortgages payable, including approximately \$52,000 due within one year	1,002,494	2,616,328
Minority interest in subsidiary companies	293,134	230,355

SHAREHOLDERS' EQUITY

CAPITAL STOCK

Authorized 5,000,000 shares of \$1 each par value		
Issued and fully paid 4,341,649 shares	\$ 4,341,649	4,341,649
Add premium on shares, net	8,113,031	8,113,031
	<u>12,454,680</u>	<u>12,454,680</u>
(Deficit) surplus as attached	(2,491,534)	12,538,581
	<u>9,963,146</u>	<u>24,993,261</u>
	<u>\$61,648,404</u>	<u>\$76,970,804</u>

1964
Comparative
Figures



The attached notes are an integral part of these financial statements.

GUNNAR MINING L I M I T E D A N D S U B S I D I A R I E S

STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED DECEMBER 31, 1965

		1964 Comparative Figures
Gross revenue	\$116,926,099	\$142,626,965
Operating costs, including provision for losses to complete contracts of \$3,250,000	115,798,019	139,324,441
Gross profit from operations	1,128,080	3,302,524
Share of joint venture losses — net, including provision for losses to complete contracts of \$3,400,000	4,702,105	497,841
Gross (loss) profit	(3,574,025)	2,804,683
Administrative and general expenses	\$7,140,166	6,918,869
Financial expense, net of investment income of \$436,523	1,285,255	664,117
Depreciation	2,352,339	2,510,170
Mining royalty tax	—	191,024
Mining exploration	458,331	537,348
	11,236,091	10,821,528
	14,810,116	8,016,845
Gain on sale of fixed assets — net	1,012,338	1,128,822
Gain on sale of securities	1,312,278	67,056
	2,324,616	1,195,878
	12,485,500	6,820,967
	745,176	949,636
Provision for income taxes — net	13,230,676	5,871,331
Income taxes recoverable — net	62,779	52,276
Net loss before minority interests	\$ 13,293,455	\$ 5,923,607
Minority interests' share of net income		
Net loss for year		

GUNNAR MINING LIMITED AND SUBSIDIARIES

STATEMENT OF CONSOLIDATED DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1965

Surplus, January 1	\$12,538,581	\$24,080,162
Dividends paid	1,736,660	4,341,649
Mining claims, properties and leases written off	—	1,156,720
Excess cost of investments in subsidiaries over book value of net assets acquired	—	119,605
	1,736,660	5,617,974
	10,801,921	18,462,188
Net loss for the year	13,293,455	5,923,607
(Deficit) surplus, December 31	<u>\$ (2,491,534)</u>	<u>\$12,538,581</u>

1964
Comparative
Figures



GUNNAR MINING LIMITED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1965

1. The bank indebtedness is secured by charges on assets of the Company and all its wholly-owned operating subsidiaries.

2. The provision for estimated future losses on construction contracts is based on estimates of costs to complete prepared by the Company's engineering staff assisted, in certain circumstances, by outside consultants. The amount required to provide for all anticipated losses on contracts as at December 31, 1965 was \$6,650,000.

It is the policy of the Company not to reflect claims for extra work in the financial statements until the compensation has been received.

3. The Company has reserved 300,000 shares of its unissued capital stock pursuant to an Employees' Incentive Stock Option Plan, authorized in 1965. Options may be granted to employees of the Company, and its subsidiaries, up to but not after, December 31, 1970, at a price equal to the closing bid price of the shares of the Company on the Toronto Stock Exchange on the date the option is granted. Directors of the Company do not qualify under the Plan.

The following options covering the following shares have been granted and are outstanding:

October 19, 1965	100,000 shares at \$2.15 per share;
March 3, 1966	15,000 shares at \$2.02 per share;
March 28, 1966	50,000 shares at \$1.96 per share.

These options are exercisable in equal instalments of 20% of the total over a five year period commencing one year from the grant dates. The right to exercise such options to the extent of 20% thereof is cumulative from year to year, but each option will expire and terminate six years from its grant date.

The Company is committed to grant to the employees holding the first two above mentioned options additional options covering shares totalling the same amounts in four equal annual instalments commencing on the anniversary date of the respective grant dates at prices equal to the closing bid price of the shares of the Company on the Toronto Stock Exchange on the date such additional options are granted.

4. One of the subsidiaries of McNamara Corporation Limited is a defendant in an action brought in the Supreme Court of Saskatchewan in which the plaintiff is claiming the sum of \$497,848 for goods sold and delivered and service charges. The action is being defended and the defendant has paid approximately 10% of the amount claimed into Court with a denial of liability. In the opinion of counsel of the Company the defendant has a good defence to the action.

5. Comparative figures for the 1964 year have been adapted in certain instances to conform with the classification of accounts used in 1965.

AUDITORS' REPORT

The Shareholders,
GUNNAR MINING LIMITED.

We have examined the consolidated balance sheet of Gunnar Mining Limited and subsidiaries as at December 31, 1965 and the statements of consolidated income and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and statements of consolidated income and deficit present fairly the financial position of Gunnar Mining Limited and subsidiaries as at December 31, 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

TOUCHE, ROSS, BAILEY & SMART,
Chartered Accountants.

Toronto, Ontario, March 30, 1966.

